

8 . CASH FLOW STATEMENT

1. Classify the following into (i) Operating Activities, (ii) Investing Activities (iii) Financing Activities and (iv) Cash and Cash Equivalents while preparing Cash Flow Statement :

- a. Cash Sales
- b. Purchase of Building
- c. Cash received from Trade Receivable
- d. Sale of Building
- e. Issue of shares
- f. Dividend paid
- g. Interest paid on Debenture by Finance Company
- h. Cash Purchases
- i. Depreciation
- j. Selling and Distribution Expenses
- k. Dividend received on share by finance company
- l. Sale of investment by non–finance company
- m. Current investment
- n. Income tax Paid

Solution :

- a. Operating Activities
- b. Investing Activities
- c. Operating Activities
- d. Investing Activities
- e. Finance Activities
- f. Finance Activities
- g. Operating Activities
- h. Operating Activities
- i. Operating Activities
- j. Operating Activities
- k. Operating Activities
- l. Investing Activities
- m. Cash and Cash Equivalents
- n. Cash and Cash Equivalents

2. On March 31st 2020 Ramesh and Co. indicated a profit of ₹ 1,25,000, after considering the following :

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Depreciation on buildings	25,000
Depreciation on Plant and Machinery	45,000
Amortization of Goodwill	20,000
Gain on sale of machinery	10,000

Additional Information

	31.3.2020	31.3.2019
Trade Receivable	45,000	35,000
Inventories	69,000	75,000
Cash in hand	30,000	18,000
Trade payable	32,000	30,000
Expenses payable	5,000	10,000
Bank Overdraft	35,000	60,000

Ascertain the net cash flow / use from operating activities .

Solution :

Calculation of Cash Flow from Operating Activities for
the year ended 31st March 2020

	₹	₹
Net Profit before Tax		1,25,000
Adjustments for non-cash and non-operating items :		
Add: Depreciation (25,000 + 45,000)	70,000	
Goodwill W/off	20,000	90,000
		2,15,000
Less: Gain on sale of Fixed Tangible Assets (Land)		10,000
Operating profit before working capital changes Add :		2,05,000
Decrease in Current Assets :		
Inventories	6,000	
Increase in Current Liabilities		
Trade Payable	2,000	8,000
		2,13,000
Less: Increase in Current Assets :		
Trade Receivable	(10,000)	
Decrease in Current Liabilities		
Expenses payable	(5,000)	(15,000)
Net Cash Flow from Operating Activities		1,98,000

- Cash in hand will not affect Cash flow from operating activities .
- Bank Overdraft is a financing Activities, hence it will not appear Cash Flow from Operating Activities .

3. From the following figures calculate cash from operating activities

	31.3.2019	31.3.2020
Balance of Profit and Loss	3,00,000	2,50,000

Provision for depreciation	60,000	80,000
Outstanding Wages	18,000	15,000
Prepaid Insurance	6,000	9,000
Goodwill	40,000	32,000
Provision for Doubtful Debts	10,000	14,000
Trade Receivable	1,40,000	98,000
Cash and Bank Balance	30,000	25,000

Solution :

Calculation of Cash Flow from Operating Activities for
the year ended 31st March 2020

	₹	₹
Net Loss (Note 1)		(50,000)
Adjustments for non-cash and non-operating items :		
Add: Depreciation (₹80,000 – ₹60,000)	20,000	
Goodwill W/off (₹ 40,000 – ₹ 32,000)	8,000	
Transfer to Provision for Doubtful Debts (₹ 14000-10000)	4,000	32,000
Operating loss before working capital changes Add :		(18,000)
Decrease in Current Assets :		
Trade Receivables	42,000	
Increase in Current Liabilities	-	42,000
		24,000
Less: Increase in Current Assets :		
Prepaid Insurance	3,000	
Decrease in Current Liabilities		
Outstanding Wages	3,000	(6,000)
Net Cash Flow from Operating Activities		18,000

Note :

1. Calculation of Net Loss :	
Balance of Profit & Loss on 31 . 3 . 2020	2,50,000
(-) Balance of Profit & Loss on 31 . 3 . 2019	3,00,000
Net Loss during the year	(50,000)
2. Cash and Bank balance will not affect Cash flow from operating activities	

4. Prateek Ltd . Made a profit of ₹ 5,00,000 after considering the following items :

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Goodwill Written off	5,000
Depreciation on Fixed Tangible Assets	50,000
Loss on sale of Fixed Assets (Machinery)	20,000

Provision for Doubtful Debts	10,000
Gain on sale of Fixed Tangible Assets (Land)	7,500

Additional Information

	31.3.2020	31.3.2019
Trade Receivable	78,000	52,000
Prepaid Expenses	3,000	2,000
Trade payable	51,000	40,000
Expenses payable	20,000	34,000

Ascertain the net cash flow / use from operating activities .

Solution :

Calculation of Cash Flow from Operating Activities
for the year ended 31st March 2020

	₹	₹
Net Profit before Tax		5,00,000
Adjustments for non-cash and non-operating items :		
Add: Depreciation	50,000	
Goodwill W/off	5,000	
Loss on sale of Fixed Tangible Assets (Machinery)	20,000	
Provision for Doubtful Debts	10,000	85,000
		5,85,000
Less: Gain on sale of Fixed Tangible Assets (Land)		7,500
Operating profit before working capital changes		5,77,500
Add: Decrease in Current Assets :		
Increase in Current Liabilities		
Trade Payable	11,000	11,000
		5,88,500
Less: Increase in Current Assets :		
Trade Receivable	(26,000)	
Prepaid Expenses	(1,000)	
Decrease in Current Liabilities		
Expenses payable	(14,000)	(41,000)
Net Cash Flow from Operating Activities		5,47,500

5. Prepare a Cash Flow Statement on the basis of the information given in the Balance Sheet of Neelakshi Trading Co . as at 31.03.2020 and 31.03.2019 .

Particulars	Note No .	31-3-2020	31-3-2019
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I.	EQUITY AND LIABILITIES			
	1. Shareholder's Funds :		2,10,000	1,80,000
	a. Share capital	1	1,32,000	24,000
	b. Reserve and Surplus			
	2. Non-Current Liabilities Long-term Borrowings		1,50,000	1,50,000
	3. Current Liabilities Trade Payable		75,000	27,000
			5,67,000	3,81,000
II.	Total ASSETS			
	1. Non-Currents Assets		2,94,000	2,52,000
	a. Fixed Assets		48,000	18,000
	i. Tangible Assets			
	b. Non-Current Investments		54,000	60,000
	b. Non-Current Investments		1,07,000	24,000
	c. Non-Current Investments		40,000	17,500
	2. Current Assets :		24,000	9,500
	a. Current-Investments			
	b. Inventories			
	c. Trade Receivables			
	d. Cash & Cash Equivalents		5,67,000	3,81,000
	Total			

Notes :

Particulars	31-3-2020	31-3-2019
1. Reserve & Surplus : Surplus, i. e. Balance in Statement of Profit and Loss	1,32,000	24,000

Solution :

Calculation of Cash Flow from Operating Activities for
the year ended 31st March 2020

	₹	₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (Note 1)	1,08,000	
Adjustments for non-cash and non-operating items :	-	
Operating profit before working capital changes	1,08,000	
Add : Decrease in Current Assets :		
Increase in Current Liabilities		
Trade Payable	48,000	
	156,000	

Less : Increase in Current Assets :		
Trade Receivable	(83,000)	
Inventories	(22,500)	
Decrease in Current Liabilities		
Net Cash Flow from Operating Activities		50,500
II. Cash Flow from Investing Activities		
Purchase of Fixed Assets (2,94,000 –2,52,000)	(42,000)	
Purchase of Non–Current Investments (48,000 – 18,000)	(30,000)	
Net Cash used from Investing Activities		(72,000)
III. Cash Flow from Financing Activities Issue of share Capital	30,000	
Net Cash Flow from Financing Activities		30,000
Net increase /decrease in cash and cash equivalents (I+II+III)		8,500
Add : Opening cash and cash equivalents		69,500
Closing cash and cash equivalents		78,000

Notes

1. Calculation of Net profit :	
Balance of Profit & Loss on 31 . 3 . 2020	1,32,000
(–) Balance of Profit & Loss on 31 . 3 . 2019	24,000
Net profit during the year	1,08,000

6. Prepare a Cash Flow Statement on the basis of the information given in the Balance Sheet of Riddhiman Trading Co . as at 31 . 03 . 2020 and 31 . 03 . 2019 .

Particulars	Note No .	31–3–2020	31–3–2019
I. EQUITY AND LIABILITIES			
a. Shareholder ' s Funds :	1	70,000	60,000
i. Share capital		44,000	8,000
ii. Reserve and Surplus		50,000	50,000
b. Non–Current Liabilities			
Long –term Borrowings		25,000	9,000
c. Current Liabilities Trade Payable			
Total ASSETS		1,89,000	1,27,000

II.	a. Non-Currents Assets		
	i. Fixed Assets	98,000	84,000
	1. Tangible Assets	16,000	6,000
	ii. Non-Current Investments	18,000	20,000
	b. Current Assets :	49,000	12,000
	i. Current-Investments	8,000	5,000
	ii. Inventories		
	iii. Cash & Cash		
	Equivalents Total	1,89,000	1,27,000

Notes :

Particulars	31-3-2020	31-3-2019
1. Reserve & Surplus :		
General Reserve	30,000	20,000
Surplus, i. e. Balance in Statement of Profit and Loss	14,000	(12,000)
	44,000	8,000
2. Trade Payables Sundry Creditors		
Bills Payable	23,500	6,500
	1,500	2,500
	25,000	9,000

Additional Information :

1. Depreciation provided on tangible assets (Machinery) during the year ₹ 8,000
2. Interest paid on debentures ₹ 5,000 .

Solution :

Calculation of Cash Flow from Operating Activities for
the year ended 31st March 2020

	₹	₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (Note 1)	36,000	
Adjustments for non-cash and non-operating items :		
Add: Depreciation	8,000	
Interest on long term borrowings	5,000	
Operating profit before working capital changes Add :	49,000	
Decrease in Current Assets :		
Increase in Current Liabilities		
Sundry Creditors	17,000	
	66,000	

Less: Increase in Current Assets :		
Inventories	(1,000)	
Decrease in Current Liabilities		
Bills Payable	(37,000)	
Net Cash Flow from Operating Activities		28,000
II. Cash Flow from Investing Activities		
Purchase of Fixed Assets (Note 2)	(22,000)	
Purchase of Non-Current Investments	(10,000)	
Net Cash used from Investing Activities		(32,000)
III. Cash Flow from Financing Activities		
Issue of share Capital	10,000	
Interest on long term borrowings	(5,000)	
Net Cash Flow from Financing Activities		5,000
Net increase/decrease in cash and cash equivalents (I+II+III)		1,000
Add: Opening cash and cash equivalents		25,000
Closing cash and cash equivalents		26,000

Notes

1. Calculation of Net profit :	
Balance of Profit & Loss on 31 . 3 . 2020	14,000
(-) Balance of Profit & Loss on 31 . 3 . 2019	(12,000)
Net profit during the year	26,000
Transfer to General Reserve	10,000
	36,000

Fixed Tangible Assets

Particulars	₹	Particulars	₹
To Balance b/d	84,000	By Depreciation	8,000
To Bank (Purchase)	22,000	By Balance c/d	98,000
	1,06,000		1,06,000